



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 00-0194

DIRECT TESTIMONY OF REED T. SCHEPPMANN
ON BEHALF OF CITIZENS UTILITIES COMPANY OF ILLINOIS

- 1 Q: Please state your name and business address.
- 2 A: Reed T. Scheppmann, Citizens Utilities Company of Illinois ("Citizens") 1000
- 3 Internationale Parkway, Woodridge, Illinois 60517.
- 4 Q: By whom are you employed and in what capacity?
- 5 A. I am employed by Citizens Utilities Company of Illinois as Vice President and
- 6 General Manager.
- 7 Q. What is your educational background?
- 8 A. I received a B.S. degree in Civil Engineering from the University of Minnesota Institute
- 9 of Technology in 1977.
- 10 Q. Are you a Registered Professional Engineer?
- 11 A. Yes. I am a Registered Professional Engineer in the states of Illinois, Iowa (on
- 12 inactive status), Minnesota and Colorado.
- 13 Q. Are you a member of any professional organizations?
- 14 A. Yes, I am a member of the American Water Works Association and I am on the
- 15 Board of Directors, Bolingbrook Local Economic Development Board.
- 16 Q. Please describe your work experience prior to joining Citizens.

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OFFICIAL FILE
I.C.C. DOCKET NO. 00-0194
Citizens Exhibit No. 1.0
Witness 8/1/2000 reporter P.G.

1 A. Upon graduation, I was employed as E.I.T. Assistant Project Manager with the
2 firm of A.F. Scheppmann and Son Construction Co., Inc. From 1979 to 1984, I
3 was a civil engineer with Rieke Carroll Muller Associates, Inc., a municipal
4 improvement engineering consulting firm. Subsequently, from 1984 to 1987, I
5 was managing partner of Scheppmann Development Company, a real estate
6 development firm. I joined Citizens in December of 1987.

7 **Q. Please describe your work experience with Citizens prior to becoming Vice**
8 **President and General Manager.**

9 A. Before becoming Vice President and General Manager, I was an Assistant
10 General Manager and my areas of responsibility included business development
11 and the management of capital improvement projects and developer-related
12 construction activities, as well as field services.

13 **Q. As Vice President and General Manager, what are your general duties?**

14 A. My present responsibilities include leadership and overall management of
15 Citizens. In particular, my primary responsibilities involve acquisitions, business
16 development, strategic planning, master planning, capital budgeting, capital
17 improvement projects, regulatory affairs, customer service and operations and
18 maintenance.

19 **Q. Have you provided testimony before the Illinois Commerce Commission**
20 **("Commission") in the past?**

1 A. Yes. I have provided testimony before the Commission regarding obtaining
2 Certificates of Public Convenience and Necessity to provide service to new areas.
3 I also provided testimony in the most recent rate case.

4 **Q. What is the purpose of your direct testimony in this proceeding?**

5 A. The purpose of my direct testimony is to explain why Citizens is requesting a
6 certificate to provide water and sanitary sewer service in the area which is the
7 subject of the Petition filed in this docket. I will explain why granting the
8 certificate is necessary and will promote the public convenience. I will explain
9 that granting a certificate will allow Citizens to provide adequate, reliable and
10 efficient service to customers at the least cost.

11
12 I will also describe the Asset Purchase Agreement between Citizens and Terra Cotta
13 Realty Co. (TC) for the acquisition by Citizens of the existing water and sewer facilities
14 to serve the parcels for which certification is requested. To the extent necessary, Citizens
15 requests approval of this agreement and, therefore, I will discuss the reasons that
16 agreement is in the best interest of Citizens, its ratepayers and the public.

17 **Q. Please explain why Citizens is requesting a certificate to provide water and**
18 **sanitary sewer service in the area which is the subject of the Petition.**

19 A. TC and its affiliates own or owned all the property serving the area for which Citizens is
20 currently requesting certification. In preparation for initial phases of development in the
21 area, TC constructed a 500,000 gallon elevated water storage tank, two wells, a well

1 house, and a lift station, along with water and sanitary sewer mains. TC also owns a
2 100,000 gallon per day water reclamation facility ("WRF"). Citizens has agreed to
3 purchase these assets from TC.
4

5 These facilities will be available to provide water and sanitary sewer services to a new
6 single family home development, a townhome development and a commercial
7 development. These facilities are adequate to provide service to the initial phase of
8 development. Over the years, as development progresses, additional facilities may be
9 required and they will be expanded or added as needed. At this time, however, Citizens
10 is not proposing any new water facilities. The planning, permitting and design of the
11 WRF expansion will commence in the year 2000.

12 **Q. Are there any other public water and sanitary sewer systems providing**
13 **service to the parcels in question?**

14 **A. No other water or sanitary sewer utility presently serves this area. Moreover, the**
15 **area for which certification is requested is located within the corporate limits of**
16 **the Village of Prairie Grove, and the Village supports Citizens' Petition for a**
17 **Certificate of Public Convenience and Necessity.**

18 **Q. Is the requested certification necessary, and will the public be inconvenienced**
19 **thereby?**

20 **A. Yes. Certification is necessary. A Business Park and residential developments**
21 **are planned for the area and property owners will soon be needing service to those**

1 developments. In fact, it is expected that owners will be in need of service on or
2 before July, 2000.

3 **Q. Will Citizens provide adequate, reliable and efficient service to customers?**

4 **A. Yes. The existing facilities were designed by professional engineers, and were**
5 **tested and inspected to meet all necessary approvals. These facilities are**
6 **sufficient to serve the initial phases of development for the area for which**
7 **certification is requested. If the certificate is granted, Citizens will provide**
8 **reliable and efficient service as it does with all its customers. Moreover, as**
9 **explained above, the Village of Prairie Grove (the Village which contains all the**
10 **area for which certification is requested) supports Citizens' Petition for Certificate**
11 **of Public Convenience and Necessity.**

12 **Q. Is certification of Citizens the least-cost means of satisfying the service needs**
13 **of customers to be located in the area for which certification is sought?**

14 **A. Yes. Citizens' ownership and operation constitutes the least-cost means of**
15 **satisfying the service needs of the customers in the area. Indeed, Citizens is**
16 **virtually the only means of satisfying the service needs of the area for which**
17 **certification is sought. Facilities are in place to serve the area currently being**
18 **developed, and the owner of those facilities, TC, already has entered into an**
19 **agreement to sell those facilities to Citizens. It is obviously most cost efficient for**
20 **Citizens, who already has an agreement to purchase the facilities, to establish**

1 service to the area. Duplication of facilities and unnecessary costs will be
2 avoided.

3
4 Moreover, because of the size and financial strength of Citizens, it possess economies of
5 scope and scale lacking in smaller, stand-alone systems. These economies of scope and
6 scale assure that certification of Citizens is the least cost means of satisfying the service
7 needs in the area being developed. Additionally, the purchase of facilities (which is
8 described later in my testimony) is structured in a way which minimizes initial capital
9 investment by Citizens and provides for investment to occur as new customers are
10 connected.

11
12 Finally, the fact that the Commission has jurisdiction over Citizens' rates and services
13 provides assurance that Citizens will provide adequate, reliable and efficient service at the
14 least cost.

15 **Q. Is Citizens capable of efficiently managing and supervising the activities**
16 **necessary to serve all of the parcels?**

17 **A. Yes. Citizens possesses the managerial and technical ability to provide service to**
18 **the area for which certification is requested. Citizens has the necessary expertise**
19 **to serve the area, as evidenced by its proven track record. Citizens currently**
20 **services over 72,000 customers in six counties within northeastern Illinois and has**

1 many years of experience managing water and sanitary sewer facilities of this
2 type.

3 **Q. Is Citizens capable of financing the purchase of the facilities without**
4 **significant adverse financial consequences to the utility or its customers?**

5 **A. Yes. The agreement entered into with the developer is consistent with the**
6 **Commission's rules and Citizens' tariffs. Citizens has access to all of the**
7 **necessary funds to support this investment through its parent, Citizens Utilities**
8 **Company. Moreover, because of Citizens' financial strength, any required**
9 **financing of future improvements or investment in facilities will not be a burden**
10 **to Citizens or its customers. In short, neither Citizens nor its existing customers**
11 **will be adversely affected by the purchase of the facilities at issue.**

12
13 It is important to note that TC will be responsible for financing and engineering any and
14 all future expansions of the sewage treatment plant with Citizens reviewing and
15 approving such expansions. The capacity generated by any expansion TC pays for will
16 be available to the area for which Citizens is requesting certification. Citizens, however,
17 plans to contract directly for any capacity expansion and plans to manage the construction
18 of any expansion as well as the bidding process. Citizens will retain ownership of the
19 existing sewage treatment plant and all future expansions.

20 **Q. What rates will Citizens charge for its service in this area if a certificate is**
21 **granted?**

1 A. Citizens will charge rates according to the Company's standard tariffs.

2 Q. Does Citizens also request approval of an agreement between TC and
3 Citizens?

4 A. Yes.

5 Q. Generally describe the agreement between Citizens and TC.

6 A. The agreement is entitled "Asset Purchase Agreement" ("Agreement") and was
7 executed on February 16, 2000. The Agreement was filed with the Petition as
8 Exhibit A.

9 Q. Is the Agreement the result of arm's-length negotiations between Citizens
10 and TC, and does it represent the best interests of both parties?

11 A. Yes. Both parties voluntarily entered into this Agreement with each other under
12 terms that were mutually satisfactory to each party. If the terms of the Agreement
13 were not satisfactory, either party could have elected to abandon negotiations, or
14 to negotiate with another party. The Agreement was entered into in good faith
15 and, in my opinion, is fair to both parties, and produces results that are in the
16 public interest and serve the public convenience.

17 Q. What facilities will Citizens finance under the Agreement?

18 A. Under the Agreement, Citizens agrees to purchase and TC agrees to sell, transfer,
19 and convey all of the facilities on the TC property except for the following: (1)
20 two existing wells and any capped wells within TC's manufacturing site and a
21 380,000 gallon water storage facility currently being used to provide water service

1 to TC's existing and future manufacturing facilities and administrative offices;
2 and (2) wastewater collection and pre-treatment facilities used to provide service
3 to TC's existing and future manufacturing facilities and administrative offices.

4 The Asset Purchase Agreement and Bob Khan's testimony sets forth in detail the
5 specific facilities being conveyed to Citizens.

6 **Q. What is the purchase price for the facilities?**

7 **A.** Under the Agreement, Citizens pays no money down and will reimburse TC for
8 water backbone plant based on new customer connections. Backbone plant
9 includes the two new wells, well house, and new 500,000 gallon elevated storage
10 tank and related appurtenances. The amount of payment will be determined by
11 the actual cost of the backbone facilities divided by the number of SFUs or PEs
12 (determined by a professional engineer mutually agreed to by the parties) that can
13 be served by the backbone facilities. Citizens will reimburse TC for the actual
14 cost of the individual water service connections constructed by TC between the
15 water main and the property line. Citizens will pay to TC 1 ½ times the first year
16 water revenues of a typical residence for each new residential customer connected
17 for the first time and in service for a period of one year. For new commercial
18 customer connections, Citizens will pay to TC 1 ½ times the actual first year's
19 water revenue after the first full year of service. Citizens will make these
20 payments for a period of ten years from the date of either the first customer
21 connection or July 1, 2000, whichever occurs first.

1 Q. Will Citizens own the real estate on which the WRF facilities are located?

2 A. No. Citizens will only own the WRF facilities, not the real estate where the WRF
3 is located. TC and Citizens are entering into a lease agreement under which
4 Citizens will lease the land on which the facilities are located from TC for 99
5 years. The lease agreement contains a right of first refusal in the event that TC
6 receives a bona fide offer for the purchase of the premises during the term of the
7 lease or any extension thereof.

8 Q. Are you familiar with 83 Illinois Administrative Code 600.370?

9 A. Yes, I am familiar with Section 600.370.

10 Q. Does the financial arrangement, under the Agreement, comply with 83
11 Illinois Administrative Code 600.370?

12 A. Yes.

13 Q. Does Citizens' tariff prohibit a transaction of the type defined under the
14 Agreement?

15 A. No. Citizens' tariff contains no restrictive provision that would impact the terms
16 of the Agreement.

17 Q. In your opinion, would approval of the Agreement be in the best interest of
18 Citizens and its ratepayers, and in the public interest?

19 A. Yes. Citizens' ownership, operation and maintenance of the water and sanitary
20 sewer facilities is necessary to provide adequate, reliable and efficient water and
21 sanitary sewer service to customers to be located within the area for which

1 certification is sought. There will be no adverse impact on Citizens or its current
2 ratepayers.

3 **Q. Does this conclude your testimony?**

4 **A. Yes.**